



# Report of the auditor-general to the North West provincial legislature and the council on the Bojanala Platinum District Municipality

## Report on the financial statements

### Introduction

1. I was engaged to audit the financial statements of the Bojanala Platinum District Municipality set out on pages XX to XX, which comprise the statement of financial position as at 30 June 2016, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget and actual amounts for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

### Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA standards of GRAP), the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA), the Division of Revenue Act of South Africa, 2015 (Act No. 1 of 2015) (DoRA) and for such internal control as the accounting officer determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor-general's responsibility

3. My responsibility is to express an opinion on the financial statements based on conducting the audit in accordance with the International Standards on Auditing. Because of the matters described in the basis for disclaimer of opinion paragraphs, however, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

### Basis for disclaimer of opinion

#### Property, plant and equipment

4. The municipality did not have adequate systems in place to reconcile the fixed asset register with the property, plant and equipment accounts. Consequently, property, plant and equipment as disclosed in note 2 to the financial statements were overstated by R6 118 877 (2015: R3 027 012) and depreciation overstated by R1 584 577 (2015: R710 026). Additionally, there was a resultant impact on the surplus for the year and the accumulated surplus recognised in the financial statements.
5. The municipality did not correctly classify lease agreements where substantially all the risks and rewards incidental to ownership were transferred to the municipality, as finance leases in

accordance with GRAP 13 *Leases*, resulting in property, plant and equipment and long-term liabilities being understated by R6 642 228 (2015: R1 718 095) and R3 940 920 (2015: R242 899) respectively and the current portion of long-term liabilities being understated by R2 888 889 (2015: R1 595 971). Additionally, there was a resultant impact on the depreciation and finance charges for the period and on the surplus for the year and the accumulated surplus recognised in the financial statements.

## **Payables from exchange transactions**

6. I was unable to obtain sufficient appropriate audit evidence for selected trade payables as the information and explanations I considered necessary to confirm these trade payables, were not available. This was due to a lack of proper record keeping and reconciliation of control accounts. I was unable to confirm these trade payables by alternative means. Consequently, I was unable to determine whether any adjustment relating to trade payables of R26 530 092 included in payables from exchange transactions disclosed in note 6 to the financial statements, was necessary.

## **Employee benefits**

7. The municipality did not provide for long-service awards and post-retirement benefit obligations in accordance with GRAP 25 *Employee benefits*, despite having a constructive obligation for such employee benefits. I was unable to determine the full extent of the understatement of this provision as it was impracticable to do so. Additionally, there was a resultant impact on the employee related cost for the period and on the surplus for the year and the accumulated surplus recognised in the financial statements.

## **Accumulated surplus**

8. The statement of changes in net assets does not cast, as prior period errors were not correctly accounted for. This resulted in the accumulated surplus recognised in the statement of financial position and the statement of changes in net assets being understated by R4 677 102.

## **General expenses**

9. I was unable to obtain sufficient appropriate audit evidence for general expenses, as documentation to support selected transactions was not provided for audit. I was unable to confirm these general expenses by alternative means. Consequently, I was unable to determine whether any adjustment relating to general expenses of R48 013 120 (2015: R40 857 171) as disclosed in note 16 to the financial statements, was necessary.

## **Grants and subsidies paid**

10. I was unable to obtain sufficient appropriate audit evidence for grants and subsidies paid, as documentation to support selected transactions was not provided for audit. I was unable to confirm these grants and subsidies paid by alternative means. Consequently, I was unable to determine whether any adjustment relating to grants and subsidies paid of R81 867 664 (2015: R89 938 893) as disclosed in note 10 to the financial statements, was necessary.

## **Employee related costs**

11. I was unable to obtain sufficient appropriate audit evidence for employee related costs due to variances between the accounting system and the payroll system that could not be explained by management. In addition, performance bonuses and provision for staff leave included in employee related costs disclosed in note 12 to the financial statements, were understated by R7 450 789 (2015: R1 896 844). I could not confirm these employee related costs by



alternative means. Consequently, I was unable to determine whether any further adjustment to employee related costs of R146 373 526 (2015: R135 039 892) disclosed in note 12 to the financial statements, was necessary. Additionally there was a resultant impact on the surplus for the year and the accumulated surplus recognised in the financial statements.

## **Remuneration of councillors**

12. I was unable to obtain sufficient appropriate audit evidence for remuneration of councillors due to variances between the accounting system and the payroll system that could not be explained by management. I was unable to confirm this remuneration of councillors by alternative means. Consequently, I was unable to determine whether any adjustment relating to remuneration of councillors of R13 720 823 (2015: R14 141 705) disclosed in note 13 to the financial statements, was necessary.

## **Cash flow statement**

13. The calculation of net cash flows from operating activities and cash flows from investing activities recognised in the cash flow statement, did not appropriately account for cash and non-cash items as required by GRAP 2 *Cash flow statements*. The municipality's system did not allow the performance of alternative procedures to determine the extent of this misstatement. Consequently, I was unable to obtain sufficient appropriate audit evidence to confirm the accuracy of the net cash flows from operating activities and cash flows from investing activities included in the cash flow statement and the notes thereto.

## **Statement of comparison of budget and actual amounts**

14. The presentation of budget information including a statement comparing the budget and actual amounts as well as reasons for variances, is required by GRAP 24 *Presentation of budget information in the financial statements*. The budget amounts included in the statement of comparison of budget and actual amounts did not agree to the final approved budget of council. Consequently, the variances and reasons for variances between the actual and budgeted amounts as disclosed in the statement of comparison of budget and actual amounts, does not reflect the actual variances and reasons for variances.

## **Operating lease commitments**

15. Operating lease commitments of R3 122 378 (2015: R7 903 631) were not included in the disclosure of operating leases in note 19 to the financial statements, as required by GRAP 13 *Leases*.

## **Commitments**

16. During 2015, the municipality did not disclose all infrastructure commitments as required by GRAP 17 *Property, plant and equipment* due to a lack of proper record keeping. Capital commitments of R3 100 356 were identified which were not included in capital commitments disclosed. As the municipality did not quantify the full extent of the commitments, it was impracticable to determine the total resultant understatement of commitments of R6 406 638 disclosed in note 19 to the financial statements. My audit opinion on the financial statements for the period ended 30 June 2015 was modified accordingly. I was still unable to confirm these commitments by alternate means. Consequently, my opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.

## **Related party disclosures**

17. The municipality did not disclose the remuneration of key management personnel of R8 403 015 (2015: R7 956 031) as part of related party disclosures in note 21 to the financial statements, as required by GRAP 20 *Related-party disclosures*.

## **Prior year errors**

18. The municipality did not correctly disclose corrections made to prior period errors in note 22 to the financial statements. The nature, the amount of the correction for each financial statement item affected and the amount of the correction at the beginning of the earliest prior period were not disclosed as required by GRAP 3 *Accounting policies, estimates and errors*.

## **Unauthorised expenditure**

19. Section 125 of the MFMA requires the disclosure of unauthorised expenditure incurred. The municipality incurred unauthorised expenditure of R11 336 149 (2015: R8 656 461) during the year due to overspending of individual votes within the budget which was not included in the unauthorised expenditure disclosed. Consequently, unauthorised expenditure of R80 539 355 disclosed in note 26 to the financial statements was understated by R19 992 610 (2015: R8 656 460).

## **Irregular expenditure**

20. Section 125 of the MFMA requires the disclosure of irregular expenditure incurred. The municipality made payments of R14 280 124 in contravention of the supply chain management requirements which were not included in irregular expenditure disclosed. In addition, in 2015 the municipality did not correctly disclose irregular expenditure resulting in irregular expenditure incurred in the prior year being overstated by R4 046 484. However, as the municipality did not quantify the full extent of the irregular expenditure incurred in the current year, it was impracticable to determine the resultant understatement of irregular expenditure of R71 149 346 disclosed in note 28 to the financial statements.
21. SCM regulation 36(2) requires the disclosure of deviations from inviting competitive bids. The municipality made payments of R8 351 795 by deviating from inviting competitive bids. These deviations were not disclosed as required.

## **Financial instruments**

22. The municipality did not disclose the classes of financial instruments held and the nature of risks arising from these financial instruments in note 18 to the financial statements, as required by GRAP 104 *Financial instruments*.

## **Disclaimer of opinion**

23. Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements.

## **Emphasis of matter**

24. I draw attention to the matter below. My opinion is not modified in respect of this matter.



## **Fruitless and wasteful expenditure**

25. As disclosed in note 27 to the financial statements, fruitless and wasteful expenditure of R553 506 in respect of prior years, had not yet been dealt with in accordance with section 32 of the MFMA.

## **Additional matter**

26. I draw attention to the matter below. My opinion is not modified in respect of this matter.

## **Unaudited supplementary information**

27. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

## **Report on other legal and regulatory requirements**

28. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

## **Predetermined objectives**

29. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected development priorities presented in the annual performance report of the municipality for the year ended 30 June 2016:

- Development priority: Basic service delivery and infrastructure development on pages x to x
- Development priority: Local economic development on pages x to x
- Development priority: Good governance and public participation on pages x to x

30. I evaluated the usefulness of the reported performance information to determine whether it was consistent with the planned development priorities. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's Framework for managing programme performance information (FMPPI).

31. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

32. I did not identify any material findings on the usefulness and reliability of the reported performance information for the selected development priorities of the municipality.

## **Additional matters**

33. Although I identified no material findings on the usefulness and reliability of the reported performance information for the selected development priorities, I draw attention to the following matters:



## Achievement of planned targets

34. Refer to the annual performance report on pages XX to XX and XX to XX for information on the achievement of the planned targets for the year.

## Adjustment of material misstatements

35. I identified material misstatements in the annual performance report submitted for auditing on the reported performance information for development priority: Good governance and public participation. As management subsequently corrected the misstatements, I did not identify any material findings on the usefulness and reliability of the reported performance information.

## Compliance with legislation

36. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My findings on material compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

## Strategic planning and performance management

37. The service delivery and budget implementation plan (SDBIP) for implementing the municipality's delivery of municipal services and annual budget did not indicate projections for each month of the revenue to be collected for each month, by source and the operational and capital expenditure, by vote, as required by sections 1 and 53(1)(c) of the MFMA.

## Annual financial statements and annual report

38. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements identified by the auditors in the submitted financial statements were not adequately corrected and the supporting records could not be provided, which resulted in the financial statements receiving a disclaimer of audit opinion.

39. The 2014-15 annual report was not tabled in the municipal council as required by section 127(2) of the MFMA and section 21 of the PAA.

## Expenditure management

40. An effective system of expenditure control, including procedures for the approval, authorisation, withdrawal and payment of funds, was not in place, as required by section 65(2)(a) of the MFMA.

41. An adequate management, accounting and information system was not in place which recognised expenditure when it was incurred and accounted for creditors, as required by section 65(2)(b) of the MFMA.

42. Reasonable steps were not taken to prevent unauthorised, irregular and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

## Asset management

43. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.

44. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.

## **Liability management**

45. An adequate management, accounting and information system which accounts for liabilities was not in place, as required by section 63(2)(a) of the MFMA.
46. An effective system of internal control for liabilities was not in place, as required by section 63(2)(c) of the MFMA.

## **Procurement and contract management**

47. Goods and services with a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1).
48. Goods and services with a transaction value below R200 000 were procured without obtaining the required price quotations in contravention of SCM regulation 17(a) and (c).

## **Consequence management**

49. Unauthorised, irregular and fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by sections 32(2)(a) and (b) of the MFMA.

## **Internal control**

50. I considered internal control relevant to my audit of the financial statements, the annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for disclaimer of opinion and the findings on compliance with legislation included in this report.

## **Leadership**

51. Leadership did not exercise adequate oversight and decisive actions were not taken to address the risks relating to the achievement of complete and accurate financial reporting and related internal controls. Furthermore, the action plan to address prior year audit findings was not adequate as numerous instances of repeat audit findings were identified which negatively impacts on the assurance level provided by leadership.

## **Financial and performance management**

52. Management failed to implement effective controls to ensure that all information in the financial statements were reliable before submission for audit as basic accounting errors were identified due to management and staff not preparing properly reconciled financial information and staff not fully understanding the requirements of the financial reporting framework. Management could not provide adequate evidence in support of the information presented in the financial statements. Management also did not adequately review and monitor compliance with applicable laws and regulations resulting in compliance matters not being addressed.

## **Governance**

53. Despite internal audit performing their planned audits at the municipality, they had limited impact on the audit outcomes of the municipality. Furthermore, the audit committee did not provide adequate oversight over the effectiveness of the internal control environment, including financial and performance reporting and compliance with laws and regulations. Internal audit and the audit committee did not provide sufficient assurance on the effectiveness



of internal controls as a number of material misstatements were identified during the audit which could have been prevented had proper oversight been implemented.

*Auditor - General*

Rustenburg

30 November 2016



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